

# Industrial Market Trends Sacramento

Grubb & Ellis Research

First Quarter 2006



## Vacancy Dips Further

### Executive Summary

The lowest vacancy since 2001 was just posted at 13.9 percent. Nearly 950,000 square feet of net absorption during the first quarter resulted in a 40 basis point drop in vacancy, proving that the local industrial market remains strong and very popular within the region. The majority of newly occupied space was in the McClellan and Power Inn/South Watt submarkets. More new product and absorption is expected in the near future. A total of 38 properties were completed during the quarter totaling 350,000 square feet and just over 1.2 million square feet is under construction and scheduled to hit the market later this year. The Northgate/Natomas submarket saw the most new completions, adding 164,000 square feet of R&D space. A good balance between supply and demand has kept weighted average asking rates at virtually identical levels as last year.

Local unemployment posted a healthy 4.8 percent at the end of February. Even though this figure shows a slight increase over January, it's significantly lower than the 5.4 percent predicted by analysts last year. Local unemployment was also considerably lower than the 5.4 percentage rate for California for the same time period. Virtually all employment sectors posted increases in paid positions during the quarter. Restaurants, professional and business services, health and social services and financial services all noted increases in the month of February. At 4.1 percent, Placer County has the lowest unemployment rate in the four-county Sacramento MSA.

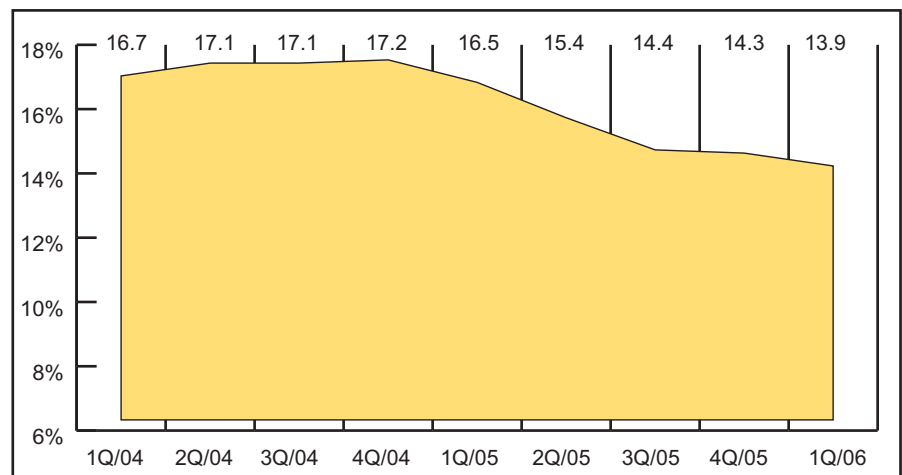
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**Dawna Callahan**  
Database Coordinator  
E-mail: [dawna.callahan@grubb-ellis.com](mailto:dawna.callahan@grubb-ellis.com)

Grubb & Ellis Company  
1610 Arden Way, Suite 195  
Sacramento, CA 95815  
Phone: 916.418.6000  
Internet: [www.grubb-ellis.com](http://www.grubb-ellis.com)

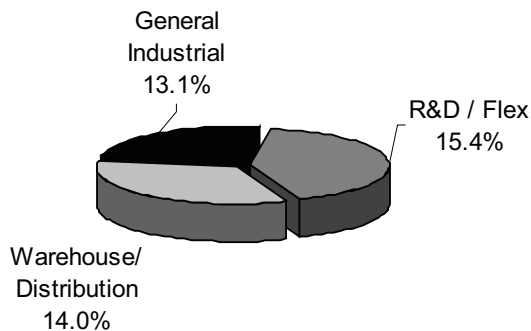


Industrial Vacancy Rate\*

\* All Product Types

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## Vacancy by Product Type



## Market Assessment

The McClellan submarket posted the largest amount of net absorption for the quarter at an impressive 789,140 square feet. This remarkable net absorption was driven by the 282,541 square feet occupied at 2031 Idzorek Street, and the 196,498 square feet occupied at 5201-5337 Luce Avenue. Another submarket that boosted its occupancy was Power Inn/South Watt with 372,739 square feet of net absorption. New tenants who occupied space in this submarket that helped drive the absorption was The Regents of the University of California who leased 120,960 square feet at 7301 14th Street, and Western Building Supply who leased 81,225 square feet at 6003 88th Street.

The Roseville/Rocklin submarket reported a surprising negative net absorption of 88,713 square feet. This was in result of the UPS Supply Chain vacating 405,054 square feet at 1731 Aviation Boulevard. This company relocated their personnel to Palo Alto and Kentucky after some corporate restructuring. Another large vacated property was 1601 Aviation Boulevard, where Selectron vacated 100,000 square feet. Despite these tenant losses for the Roseville/Rocklin submarket, this area is expected to bounce back into positive standing with the numerous tenants looking to occupy space in this submarket.

Vacancy among all three industrial property types is hovering in the 13 to 15 percent range. Surprisingly, however, is the fact that the general industrial property type has the lowest vacancy, given that title's been held by the warehouse/distribution property type for the past year. General industrial posted a 13.1 percent vacancy rate

For industrial leasing or purchase information, please call:

**Brian Barnes**  
Vice President  
916.418.6015

**Matt Cologna**  
Vice President  
916.418.6016

**Herb Grabell, SIOR**  
Senior Vice President  
916.418.6019

**Bryce MacDonald**  
Associate Advisor  
916.418.6017

**Tim Pryor, SIOR**  
Advisor  
916.418.6034

For investment specific information, please call:

**Heath Charamuga**  
Senior Vice President  
916.418.6062

**Rob Cole**  
Advisor  
916.418.6030

**Steve Griffin**  
Senior Vice President  
916.418.6018

**Erik Neese**  
Vice President  
916.418.6071

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with 1,042,577 square feet of net absorption for the quarter.

## Forecast

In 2006 look for new and exciting changes to take place. As the demand for space for lease remains steady, tenants looking to purchase are returning to the market. Also watch for Affymetrix, Inc., who produces GeneChips used in genetic research, to expand their existing space in the West Sacramento submarket with the construction of their new 110,584 square foot manufacturing plant. Besides the new inventory this company will bring to the industrial market, it's hopeful that the new plant will bring a significant amount of new jobs as well.

## Opportunities and Challenges

Large tenants seem to be making a comeback. According to a recent analysis of new tenant requirements seeking over 35,000 square feet since the first of the year, there have been a total of over three million square feet of these large requirements logged. Indicative of huge opportunity to fill big box vacancies in the Sacramento market.

A challenge for 2006 will be to continue lowering vacancy, despite the over one million square feet of new construction scheduled to come into the market. The Northgate/Natomas and Roseville/Rocklin submarkets are faced with the challenge of bringing net absorption back to positive standing with a combined 735,235 square feet of new construction planned to hit those submarkets this year that will need to be occupied. However, activity in both submarkets continues to be strong and is up for the challenge.

## Major Transactions

Grubb & Ellis is pleased to announce that it represented the following companies in industrial transactions during the first quarter of 2006:

### **The Regents of the University of California**

120,960 square feet  
7301 14th Ave  
Sacramento, CA  
Brian Barnes, Mike Kalmanson

### **Bob Hendrichs**

\$3,276,000 User Sale  
1120 Tara Ct  
Rocklin, CA  
Brian Barnes

### **North State Bandag**

18,000 square feet  
1610 Kathleen Ave  
Sacramento, CA  
Matt Cologna, Bryce  
MacDonald

## Industrial Market Terms and Definitions

**Inventory:** **Industrial** Inventory includes all multi-tenant, single tenant and owner-occupied buildings at least 10,000 square feet.

**Construction Type:** Speculative ("spec") construction is designed to attract tenants likely to be in the market when the project is leasing. Build-to-suit construction is designed for a specific tenant.

**Industrial Product Types:** Industrial buildings are categorized as warehouse/distribution, general industrial, R&D/flex and incubator based on their physical characteristics including percent office build-out, clear height, typical bay depth, typical suite size, type of loading and typical uses.

**Vacancy and Availability:** The vacancy rate is the amount of physically vacant space divided by the inventory. The availability rate is the amount of space available for lease divided by the inventory.

**Net Absorption:** The net change in physically occupied space over a period of time.

**Asking Rent:** The dollar amount asked by landlords for available space expressed in dollars per square foot per year in most parts of the country and dollars per square foot per month in areas of California and selected other markets. Industrial rents are expressed as triple net where all costs including, but not limited to, real estate taxes, insurance and common area maintenance are borne by the tenant on a pro rata basis.

**Average Weighted Asking Rent:** An average market rent where the asking rent for each building in the market is weighted by the amount of available space in the building.

## Industrial Market Snapshot Sacramento First Quarter 2006

By Submarket (All Product Types)	Total SF(1)	Vacant SF (4)	Vacant %	Net Absorption		Under Construction(2)	Asking Rent(3)	
				Current Qtr.	Year-to-date		Wh./Dist.	R&D/Flex
Downtown	6,761,146	821,412	12.2%	55,775	55,775	-	\$0.29	\$0.56
Northgate/Natomas	14,019,240	1,634,457	11.7%	(76,345)	(76,345)	428,410	\$0.38	\$0.67
West Sacramento	15,051,369	1,328,672	8.8%	84,277	84,277	-	\$0.32	\$0.65
South Sac./Elk Grove	5,478,563	680,748	12.4%	90,275	90,275	39,416	\$0.32	\$0.67
Power Inn/South Watt	21,072,460	2,914,421	13.8%	372,739	372,739	101,659	\$0.30	\$0.75
Highway 50/Sunrise	16,955,669	1,807,888	10.7%	(175,472)	(175,472)	151,135	\$0.38	\$0.75
Rose./Rock./Linc.	14,992,678	2,205,333	14.7%	(88,713)	(88,713)	306,825	\$0.37	\$1.00
Folsom/El Dorado Hills	3,661,440	138,780	3.8%	27,871	27,871	191,122	\$0.50	\$1.20
I-80/McClellan	15,942,758	3,556,455	22.3%	789,140	789,140	-	\$0.37	\$0.66
Woodland	10,407,540	2,145,154	20.6%	(137,760)	(137,760)	-	\$0.25	\$0.65
<b>Total</b>	<b>124,342,863</b>	<b>17,233,320</b>	<b>13.9%</b>	<b>941,787</b>	<b>941,787</b>	<b>1,218,567</b>	<b>\$0.35</b>	<b>\$0.76</b>

By Product Type (All Submarkets)	Average Asking Rate By Product Type						
	Total SF	Vacant SF	Vacant %	Current Qtr.	Year-to-date	Under Construction	Asking Rate
W'house/Distrib.	72,993,751	10,195,950	14.0%	(315,819)	(315,819)	775,701	\$0.35
General Industrial	38,271,906	5,020,144	13.1%	1,042,577	1,042,577	149,550	\$0.63
R&D/Flex	13,077,206	2,017,226	15.4%	215,029	215,029	293,316	\$0.76
<b>Total</b>	<b>124,342,863</b>	<b>17,233,320</b>	<b>13.9%</b>	<b>941,787</b>	<b>941,787</b>	<b>1,218,567</b>	<b>\$0.58</b>

(1) Inventory includes multi-tenant and single tenant buildings with at least 10,000 sq. ft.

(2) Space under construction includes speculative and build-to-suit for lease projects.

(3) Asking rates are per square foot per month full service. Rates for each building are weighted by the size of the building.

(4) Vacant space includes both vacant direct and vacant sublease space.

\* Grubb & Ellis statistics are audited annually and may result in revisions to previously reported quarterly and final year-end figures.